Date: 8 March, 2023

To The Listing Department **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 **BSE SCRIP CODE: 532527**	To The Listing Department **National Stock Exchange of India Limited** "Exchange Plaza" C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051 **NSE SYMBOL: RKFORGE**

Sub: Intimation of Revision (Upgradation) of Credit Rating of Ramkrishna Forgings Limited ("the Company") by India Ratings and Research

Dear Sir/Madam,

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that India Ratings and Research has revised (upgraded) the following ratings of the Company for its Bank facilities:

Instrument Type	Size of Issue (Million)	Rating/ Outlook	Rating Action
Fund-based working capital limits	INR 7,500 (increased from INR 7,000)	IND A+/Stable/IND A1	Long-term rating upgraded, short term rating affirmed
Non-fund-based working capital limits	INR 5,200 (increased from INR 4,500)	IND A1	Affirmed
Long-term loans	INR 7,429 (reduced from INR 8,176.37)	IND A+/Stable	Upgraded
Proposed fund-based limits	INR 550 (reduced from INR 1,000)	IND A+/Stable/IND A1	Long-term rating upgraded, short term rating affirmed

The rating rationale is enclosed.

We request you to take the aforementioned information in record and oblige.

Thanking you.

Yours truly,

For Ramkrishna Forgings Limited

RAJESH MUNDHRA Digitally signed by RAJESH MUNDHRA Date: 2023.08.08 12:44:31 +05'30'

RAMKRISHNA FORGINGS LIMITED KOLKATA

Rajesh Mundhra
Company Secretary & Compliance Officer
ACS 12991

Encl.: As above

THE ECONOMIC TIMES INDIA'S GROWTH CHAMPIONS 2020 statista

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India Ratings Upgrades Ramkrishna Forgings to 'IND A+'; Outlook Stable

Mar 06, 2023 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has upgraded Ramkrishna Forgings Limited's (RKFL) bank facilities to 'IND A+' from 'IND A'. The Outlook is Stable. The instrument-wise facility rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR7,500 increased from INR7,000)	IND A+/Stable/IND A1	Long-term rating upgraded, short term rating affirmed
Non-fund-based working capital limits	-	-	-	INR5,200 (increased from INR4,500)	IND A1	Affirmed
Long-term loans	-	-	FY26	INR7,429 (reduced from INR8,176.37)	IND A+/Stable	Upgraded
Proposed fund-based limits	-	-	-	INR550 (reduced from INR1,000)	IND A+/Stable/IND A1	Long-term rating upgraded, short term rating affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of RKFL and its 100% subsidiaries Globe All India Services Limited ('IND BBB+'/Stable), Ramkrishna Aeronautics Private Limited, and Ramkrishna Forgings LLC while arriving at the ratings, because of the strong operational linkages among them.

The upgrade reflects a rise in the consolidated revenue and EBITDA in 9MFY23, and the company's revenue growth being significantly higher than that of the medium and heavy commercial vehicle (MHCV) industry in which it majorly operates. The ratings also factor in the sustained improvement in company's liquidity position as well as credit metrics in 9MFY23.

Key Rating Drivers

Significant Revenue Growth in 9MFY23; Likely to Continue: The consolidated revenue grew 44% yoy to INR23,012 million in 9MFY23 (FY22: up 80% yoy). The growth was mainly driven by (1) the strong recovery witnessed in the domestic MHCV market (2) revenue growth in the exports market (3) new product launches and (4) increasing content per vehicle. The revenue also benefitted from the company's increased sales realisation along with the pass-through of input price increase to its customers. The revenues grew at a CAGR of 20% over FY17-FY22.

Ind-Ra expects the consolidated revenue in FY23 to be between INR26,000 million and INR28,000 million and increase further to over INR30,000 million on the back of a healthy order book and a ramp up of the increased capacities. However, the likelihood of macro-headwinds in the exports market could limit the company's growth plans.

Strong Profitability: The consolidated EBITDA in 9MFY23 increased to INR4,984 million (9MFY22: INR3,679 million, FY22: INR5,170 million), driven by increased sales volumes. However, the EBITDA margin dropped to 21.7% in 9MFY23 (9MFY22: 23.0%, FY22: 22.3%), mainly on account of an increase in the raw material prices. The company's EBITDA margins have benefitted from increased operational efficiencies, increasing sales realisation, though offset by higher raw material prices.

Ind-Ra expects the consolidated EBITDA margins to remain at 21%-22% in FY23-FY24, supported by the improving operating leverage. Moreover, the margins over 4QFY23-FY24 are likely to benefit from the easing raw material prices. The company also has the ability to pass on the raw material price increases to customers, in both its domestic and export markets, although with a lag.

The company's EBITDA per tonne in 9MFY23 was INR51,880 up 12% on a yoy basis; however, on a quarterly basis, the EBITDA per tonne reduced to INR51,800 in 3QFY23 from INR54,500 in 2QFY23, due to a reduction in the commodity prices in the export market resulting in a reduction in the average selling price. Ind-Ra expects the EBITDA per tonne to remain steady in medium term given the reduction in raw material prices in domestic as well as export market.

Strong Credit Metrics: For 9MFY23, the net adjusted leverage (net adjusted debt/ EBITDA) reduced to 2.5x (FY22: 3.4x) supported by a significant improvement in the absolute EBITDA while the interest coverage (EBITDA/interest expense) increased to 5.8x (5.4x).

The reported consolidated gross debt (including term debt, recourse bill discounting limit, short-term debt, acceptances and lease liabilities) reduced to INR17,382 million at end-9MFY23 (FYE22: INR18,481 million), on account of better cash flow generation. The agency has also included letter of credit acceptances (9MFY23: INR3,764 million; FY22: INR2,299 million) while calculating the adjusted debt. In 9MFY23, RKFL incurred capex of INR2,500 million for an expansion of facilities. The management expects the capex to come down materially from the historical levels, resulting in a deleveraging of the balance sheet from FY24. RKFL's credit metrics remain a key monitorable due to the capital-intensive nature of the business and ongoing acquisitions. Ind-Ra expects the leverage to be around 3x in FY24.

Improving Business Profile: RKFL has been working on de-risking its business model from the domestic commercial vehicle (CV) segment, by diversifying across different segments, customers and geographies. The revenue mix continued to be strong in 9MFY23. The contribution from the automotive segment to the consolidated revenues reduced to about 79% in 9MFY23 from about 91% in FY17. Consequently, the revenue contribution from the off-road segment (mining, earth moving and farm) increased to about 8% in 9MFY23 (FY17: 4%) and that from the oil and gas segment to 1.6% (FY17: 0.9%). RKFL is also expanding its presence in the electric vehicle space with the segment contributing 2% to the 9MFY23 consolidated revenues, which is likely to increase to 6% by FY24. The company is also running several electric vehicle programmes in North America and Asia and is planning to diversify further in the electric vehicle segment inorganically.

According to the management, the revenue contribution from the non-auto segment is likely to increase to 25% by FY26 (FY22: 19%). The revenue contribution from the railways has increased to 2.8% in 9MFY23 from 1.7% in FY22. The railways facility is likely to contribute around INR1800 million-2000 million upon peak utilisation. RKFL has bagged four new contracts amounting to INR3,660 million from Europe and North America in 3QFY23, expanding the order book.

Ind-Ra believes the vehicle demand in the key export markets could be affected in FY24 amid the economic uncertainties evolving in the global markets. The agency will continue to monitor this and assess the impact of these factors on RKFL's operating performance.

Liquidity Indicator - Adequate: RKFL has sanctioned fund-based limits of INR7,500 million (increased from INR6,000 million in December 2022). The average month-end utilisation of fund-based limits remained at about 62% while the same for non-fund-based limits was 48% for the 12 months ended December 2022. The company’s cash balance stood at INR 471 million at end-9MFY23.

Despite the strong EBITDA improvement, Ind-Ra expects RKFL’s consolidated free cash flows (FCF) to remain negative in FY23 (FY22: negative INR3,543 million; FY21: negative INR1,675 million) on account of the huge capex incurred over the period for capacity expansion. However, the negative FCF levels are likely to reduce than those in FY22 levels during FY23. Ind-Ra expects the FCF to turn positive FY24 onwards, supported by improved profitability and lower capex on a yoy basis.

The company has debt repayments of INR298 million in 4QFY23 and INR2,423 million in FY24. Ind-Ra, however, believes RKFL’s debt service coverage ratio could remain comfortable for the period, because of its healthy absolute EBITDA. As such, the agency does not expect any material impact of the substantial repayments on the ratings due to healthy growth in the orderbook.

Impact of Acquisitions on RKFL: RKFL is acquiring ACIL Ltd, which manufactures machined components for tractors and passenger vehicles. According to the management, the acquisition process, which has already been delayed, is likely to be completed in FY24. RKFL expects to fund the upfront payment of around INR850 million for the acquisition with 75% debt. The company is also acquiring JMT Auto Limited for which the resolution was passed in January 2023. The acquisition is likely to be completed by 1HFY24. As per the management, the cash outflow for this acquisition would be INR700 million. Additionally, RKFL has acquired a 51% stake in TSUYO Manufacturing Private Limited. The company plans to invest INR1,000 million in TSUYO over the next five years. Ind-Ra believes the company’s business profile will improve due to a more diversified revenue base, synergies from the manufacturing capacities and cross-selling opportunities to the marquee clientele.

Elongated Working Capital Cycle: While the consolidated net working capital cycle improved to 185 days in 9MFY23 as per Ind-Ra’s calculations (FY22: 244 days; FY21: 271 days; FY20: 218 days), it remains elongated. Ind-Ra expects RKFL’s net working capital cycle to remain elongated at around 180 days over the medium term, due to the increasing contribution from exports, which have a long receivable cycle.

During 9MFY23, the debtor days improved to 95 (FY22: 140; FY21: 161; FY20: 103), mainly due to the increase in the revenues and faster collection. The inventory days improved to 100 in 9MFY23 (FY22: 112; FY21: 189; FY20: 165) but remained high due to a longer transit/shipping time.

High Customer Concentration: RKFL’s largest customer, Tata Motors Limited, has been the major contributor to revenue historically; however, the contribution from TML has reduced as of 9MFY23 due to continuous diversification in the customer portfolio. Also, Ind-Ra believes RKFL’s counterparty risk is low due to its established market position and criticality of the components manufactured. Moreover, RKFL signs long-term contracts with exports clients, which increases revenue visibility. RKFL also benefits from its preferred supplier status and maintains a high share of business with marquee clients both in domestic and export markets.

High Revenue Dependence on Cyclical CV Sector: RFKL derives a majority of its revenues from the MHCV sector. The CV industry depends on various factors such as macro-economic fundamentals, industrial production, fleet utilisation and freight rates and hence, is prone to cyclicality. Therefore, any slowdown in the demand from the CV industry could affect RKFL’s revenue and credit metrics. RKFL’s revenues increased 44% yoy in 9MFY23 as the MHCV industry improved 56% yoy during the same period. The company is trying to penetrate the passenger vehicle segment where their presence is insignificant.

Standalone Financials: In 9MFY23, RKFL recorded revenue of INR21,656 million (FY22: INR 22,853.6 million; FY21: INR12,883.7 million) and EBITDA margins of 22.1% (23.1%, 17.8%), interest coverage of 5.8x (5.4x, 3.0x) and adjusted net leverage (adjusted for corporate guarantees and letter of credit acceptances of 2.9x (3.4x, 6.3x).

Rating Sensitivities

Positive: The following events together, on a sustained basis, will lead to a positive rating action:

- a substantial increase in the consolidated revenue, while maintaining healthy EBITDA per tonne, along with increased revenue diversification

- a reduction in the company's working capital cycle and positive Ind-Ra-calculated FCF to revenue ratio

- deleveraging of the balance sheet with the net adjusted debt/EBITDA reducing below 2.0x, including substantial absolute debt reduction

Negative: Events that, individually or collectively, on a sustained basis could lead to rating downgrade:

- a substantial decrease in the consolidated revenues or profitability

- a further elongation of the working capital cycle or deterioration in the consolidated liquidity position

- large debt-funded capex or acquisition leading to the consolidated interest coverage ratio falling below 3x

Company Profile

Incorporated in 1981, RKFL manufactures forged and computer numerical control machined components for the automobile, railways, defence, oil& gas and mining sectors. It manufactures components for transmission and axles including shafts, gear box, crown wheel, pinion, spindles and bearing rings for the auto sector. RKFL has six manufacturing facilities in India and has a total installed capacity of 187,100 tonnes.

FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Revenue (INR million)	23,013	23,202	12,889
EBITDA (INR million)	4,984	5,171	2,228
EBITDA margin (%)	21.7	22.3	17.3
Interest coverage (x)	5.8	5.4	2.8
Net adjusted leverage (x)	2.5*	3.4	6.1
Source: RKFL Ind-Ra			

*Annualised

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				2 September 2022	1 July 2022	19 July 2021

Fund-based working capital limit	Long-term/Short-term	INR8,050	IND A+/Stable/IND A1	IND A /Positive/IND A1	IND A /Positive/IND A1	IND A/Stable/IND A1
Non-fund based working capital limit	Long-term/Short-term	INR5,200	IND A1	IND A1	IND A1	IND A1
Term loan	Long-term	INR7,429	IND A+/Stable	IND A/Positive	IND A/Positive	IND A/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

The Rating Process

Evaluating Corporate Governance

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